

**ROY WATER CONSERVANCY SUBDISTRICT  
BASIC FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORTS  
YEAR ENDED DECEMBER 31, 2005**

**ROY WATER CONSERVANCY SUBDISTRICT  
YEAR ENDED DECEMBER 31, 2005**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Roy Water Conservancy Subdistrict

We have audited the accompanying financial statements of the business-type activities of Roy Water Conservancy Subdistrict, as of and for the year ended December 31, 2005, which collectively comprise the Subdistrict's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Roy Water Conservancy Subdistrict's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Roy Water Conservancy Subdistrict, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2006, on our consideration of Roy Water Conservancy Subdistrict's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
Roy Water Conservancy Subdistrict

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wood Richards & Associates

Ogden, Utah  
May 22, 2006

## **ROY WATER CONSERVANCY SUBDISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of the Roy Water Conservancy Subdistrict (the "Subdistrict") annual financial report presents our discussion and analysis of the financial performance of the Subdistrict during the calendar year 2005. This discussion has been prepared by Subdistrict management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes.

### ***USING THE ANNUAL REPORT***

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), *Basic Financial Statements and Management's Discussion and Analysis*.

One of the most important questions asked is whether the Subdistrict as a whole is better or worse off as a result of the year's activities. The key to understanding this question is the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Balance Sheet includes all assets and liabilities. The Subdistrict's net assets (the difference between assets and liabilities) are one indicator of the Subdistrict's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the Subdistrict's financial health when considered with non-financial facts such as growth of the system and the condition of the facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

## **REPORTING ENTITY**

The financial statements report information about the Subdistrict as a whole using accounting methods similar to those used by private-sector companies.

### ***Balance Sheet Information***

A summarized comparison of the Subdistrict's assets, liabilities and net assets at December 31, 2005, and 2004 are as follows:

#### **ROY WATER CONSERVANCY SUBDISTRICT BALANCE SHEET AS OF DECEMBER 31, 2005**

	<u>2005</u>	<u>2004</u>
Cash and investments	\$ 1,745,135	\$ 1,722,678
Other assets	662,657	753,710
Capital assets	<u>11,788,866</u>	<u>11,333,048</u>
<b>Total assets</b>	<b><u>\$ 14,196,658</u></b>	<b><u>\$ 13,809,436</u></b>
Other liabilities	\$ 19,171	\$ 109,462
Long-term outstanding	<u>2,604,914</u>	<u>2,814,056</u>
<b>Total liabilities</b>	<b><u>2,624,085</u></b>	<b><u>2,923,518</u></b>
Net assets:		
Invested in capital assets, Net of related debt	9,268,073	8,637,059
Restricted	318,280	418,565
Unrestricted	<u>1,986,220</u>	<u>1,830,294</u>
<b>Total net assets</b>	<b><u>11,572,573</u></b>	<b><u>10,885,918</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 14,196,658</u></b>	<b><u>\$ 13,809,436</u></b>

### ***Cash and Investments***

The net cash provided by operating activities is \$260,522. Major uses of cash and investments include: Subdistrict acquisition and construction of capital assets of \$243,224, bond payments required of \$330,791, and the Subdistrict paying down accounts payable by \$89,581, most of which consisted of impact fee reimbursements.

Overall, the Subdistrict's cash and investments decreased by \$77,828. The total ending balance of cash and investments is \$2,063,415.

## Capital Assets

Net capital assets at the end of 2005 and 2004 were \$10,482,955, and \$10,014,199, respectively. The Subdistrict's capital assets consist of land easements, buildings, equipment, and the water delivery system.

The significant differences between 2004 and 2005 were: the purchase of additional land to be used as a right-of-way, purchase of new equipment for \$102,351, construction of a 16" PVC mainline on 4800 South from 3500 West to 3700 West for \$127,673, and contributions from subdividers for \$560,420.

A summary of the changes in capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 206,419	\$ 43,304	\$ -	\$ 249,723
Land easements	1,258	-	-	1,258
Total capital assets, not being depreciated	207,677	43,304	-	250,981
Capital assets, being depreciated				
Building	276,570	-	-	276,570
Equipment	627,639	102,351	(31,976)	698,014
Water delivery system	14,333,917	688,093	-	15,022,010
Total capital assets, being depreciated	15,238,126	790,444	(31,976)	15,996,594
Accumulated Depreciation for:				
Building	(33,573)	(5,531)	-	(39,104)
Equipment	(351,479)	(52,425)	14,809	(389,095)
Water delivery system	(5,046,552)	(289,869)	-	(5,336,421)
Total accumulated depreciation	(5,431,604)	(347,825)	14,809	(5,764,620)
Total capital assets, being depreciated, net	9,806,522	442,619	(17,167)	10,231,974
Business-type activities capital assets, net	<u>\$10,014,199</u>	<u>\$ 442,619</u>	<u>\$ (17,167)</u>	<u>\$10,482,955</u>

## Debt Outstanding

Long-term liabilities for 2005 and 2004 were \$2,814,056, and \$2,604,914, respectively. Long-term debt was reduced by \$223,311. The water revenue bonds will be paid in full by 2026.

Current liabilities totaled \$19,171 in 2005 and \$109,462 in 2004. The significant decrease was due to the \$70,000 accrual in 2004 for the refund of impact fees.

### ***Debt Outstanding (continued)***

Below is a chart showing the beginning and ending balances of debt and the additions and deletions of those debts.

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Amounts Due Within One Year
Revenue Bonds Payable	\$2,795,000	\$ -	\$ (210,000)	\$2,585,000	\$ 220,000
Accrued Annual Leave	19,056	14,169	(13,311)	19,914	13,000
	<u>\$2,814,056</u>	<u>\$ 14,169</u>	<u>\$ (223,311)</u>	<u>\$2,604,914</u>	<u>\$ 233,000</u>

### ***Net Assets***

The Subdistrict's total net assets as of December 31, 2005 and 2004 were \$11,572,892, and \$10,885,918, respectively.

Investments in capital assets net of related debt totaled \$9,268,073 as of December 31, 2005. Restricted net assets totaled \$318,280, and unrestricted net assets totaled \$1,986,220.

### ***Condensed Statement of Revenues, Expenses, and Changes in Net Assets***

The statement of revenues, expenses and changes in net assets presents the Subdistrict's result of operations. A summarized comparison of the Subdistrict's revenues, expenses and changes in net assets for the years ended December 31, 2005 and 2004 are as follows:



**ROY WATER CONSERVANCY SUBDISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET  
ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>2005</u>	<u>2004</u>
<b>Operating revenues:</b>		
Property taxes	\$ 155,556	\$ 161,544
Water assessments	1,258,455	1,245,292
Other income	<u>52,516</u>	<u>43,511</u>
Total operating revenues	<u>1,466,527</u>	<u>1,450,347</u>
<b>Nonoperating revenues:</b>		
Impact fees	172,051	150,576
Interest income	<u>63,614</u>	<u>32,138</u>
Total nonoperating revenues	<u>235,665</u>	<u>182,714</u>
<b>Expenses:</b>		
Salaries and wages	337,272	319,880
Water assessments	275,256	248,703
Benefits and payroll taxes	143,227	150,286
Depreciation	347,825	342,163
Other operating expenses	351,586	434,342
Interest expense	<u>120,791</u>	<u>128,104</u>
Total expenses	<u>1,575,957</u>	<u>1,623,478</u>
Change in net assets	126,235	9,583
Contributions from developers	<u>560,420</u>	<u>56,997</u>
Beginning net assets	10,885,918	10,819,338
Ending net assets	<u><b>\$ 11,572,573</b></u>	<u><b>\$ 10,885,918</b></u>

***Statement of Revenue and Expenses***

Increases in revenue were not significant. Any change was due to normal growth. In 2005, the Subdistrict saw a significant rise in interest rates on its investments, which almost doubled.

There was a significant increase in the water assessment paid to Davis & Weber Counties Canal Company.

## ***Statement of Revenue and Expenses (continued)***

The Subdistrict had an operating income of \$11,361, and a change in net assets of \$686,655, which was attributable to the contributions from developers.

The total revenues for 2005 and 2004 were \$1,702,192, and \$1,633,061, respectively. Water assessments provided 74% of the Subdistrict's revenue in 2005.

The total expenses for 2005 and 2004 were \$1,575,957, and \$1,623,478, respectively.

## ***Year in Review***

After 30 years of growth and planning for the future of the Subdistrict, we see the light at the end of the tunnel. Preparations for the annexation of that last few acres of ground in the Subdistrict were started, and the Subdistrict boundaries established permanent definition.

Roy Water Conservancy Subdistrict, along with Hooper Irrigation Company, Weber Basin Water Conservancy District, and Davis & Weber Counties Canal Company, negotiated the boundaries of each entity supplying pressurized irrigation to the cities of Roy, Hooper, and West Haven. This allowed for the final capital facilities plan to be completed, established Subdistrict boundaries, determined water sources, and water resource development, as well as implementation of updated impact fees.

## ***Significant projects and events for 2005:***

- Installation of a 16" water line as defined in the capital facilities plan on 4800 South from 3500 West to 3700 West.
- Finalization and implementation of the capital facilities plan, including updated impact fees.
- Board determination that building the West Reservoir was not needed, thereby reducing impact fees by half. Refunds were issued for parcels whose impact fees included part of the funding for the West Reservoir construction.
- Final implementation of a GIS program was put into effect, and necessary equipment purchases were made to enable full implementation.
- Updates of SCADA system were completed.
- Completed final improvements to maintenance shop exterior.

### ***Significant projects and events for 2005 (continued)***

- Negotiation of new water source contracts with Roy City and Weber Basin Water Conservancy District, to provide a financial benefit to the citizens of Roy City and customers of Roy Water Conservancy Subdistrict, and to guarantee final sources of water needed for the capital facilities plan source development.
- Grading and reservoir embankment stabilization as required by the State Engineer for the Reservoir Expansion project, which will be completed in 2006.

### ***Financial Contact***

The Subdistrict's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Subdistrict's finances and to demonstrate the Subdistrict's accountability. If you have questions about the report or need additional financial information, please contact the Subdistrict's Manager at 5440 South Freeway Park Drive, Riverdale, Utah 84405.

**ROY WATER CONSERVANCY SUBDISTRICT  
BALANCE SHEET  
AS OF DECEMBER 31, 2005**

	<b>2005</b>	<b>2004 Comparative Only</b>
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 52,828	\$ 71,513
Cash - savings	1,692,307	1,651,165
Inventory, at cost	25,846	25,846
Tax assessments receivable	217,036	204,275
Accounts receivable - connection fees	6,984	6,013
Total current assets	<u>1,995,001</u>	<u>1,958,812</u>
Restricted assets:		
Cash and cash equivalents	318,280	418,565
Noncurrent assets:		
Water shares	1,305,911	1,305,911
Capital assets:		
Land	249,723	206,419
Land easements	1,258	1,258
Net depreciable capital assets	<u>10,231,974</u>	<u>9,819,460</u>
Total noncurrent assets	<u>11,788,866</u>	<u>11,333,048</u>
Other assets:		
Unamortized bond issue costs	<u>94,511</u>	<u>99,011</u>
Total assets	<u><b>\$ 14,196,658</b></u>	<u><b>\$ 13,809,436</b></u>
<b>LIABILITIES:</b>		
Current liabilities:		
Payroll taxes payable	\$ 6,475	\$ 7,185
Accounts payable	12,696	102,277
Total current liabilities	<u>19,171</u>	<u>109,462</u>
Noncurrent liabilities:		
Due within one year	233,000	214,000
Due in more than one year	<u>2,371,914</u>	<u>2,600,056</u>
Total noncurrent liabilities:	<u>2,604,914</u>	<u>2,814,056</u>
Total liabilities	<u>2,624,085</u>	<u>2,923,518</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	9,268,073	8,637,059
Restricted:		
Debt service	254,073	254,073
Capital improvements	64,207	164,492
Unrestricted	<u>1,986,220</u>	<u>1,830,294</u>
Total net assets	<u>11,572,573</u>	<u>10,885,918</u>
Total liabilities and net assets	<u><b>\$ 14,196,658</b></u>	<u><b>\$ 13,809,436</b></u>

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY SUBDISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>2005</b>	<b>2004 Comparative Only</b>
<b>OPERATING REVENUES:</b>		
Property taxes:		
Current	\$ 97,974	\$ 96,967
Delinquent	38,243	43,899
Motor vehicle	19,339	20,678
Water assessments	1,258,455	1,245,292
Lease income	42,732	40,018
Miscellaneous	9,784	3,493
	<u>1,466,527</u>	<u>1,450,347</u>
Total operating income		
	<u>1,466,527</u>	<u>1,450,347</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	337,272	319,880
Water assessments	275,256	248,703
Reimbursements	6,739	70,000
Professional fees	70,914	83,486
Board of Directors	19,500	10,495
Conventions and workshops	48,585	43,637
Employee benefits and payroll taxes	143,227	150,286
Repairs and maintenance	64,272	86,973
Auto and truck	21,305	19,139
Supplies, printing and advertising	32,312	26,693
Depreciation	347,825	342,163
Amortization	4,501	4,715
Insurance	28,898	30,342
Telephone and utilities	52,308	51,627
Miscellaneous	2,252	7,235
	<u>1,455,166</u>	<u>1,495,374</u>
Total operating expenses		
	<u>1,455,166</u>	<u>1,495,374</u>
Operating income	<u>11,361</u>	<u>(45,027)</u>
	<u>11,361</u>	<u>(45,027)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Impact fees	172,051	150,576
Interest earned	63,614	32,138
Interest expense	(120,791)	(128,104)
	<u>114,874</u>	<u>54,610</u>
Total nonoperating revenues (expenses)		
	<u>114,874</u>	<u>54,610</u>
Income (Loss) before contributions	126,235	9,583
	<u>560,420</u>	<u>56,997</u>
Contributions from developers		
	<u>686,655</u>	<u>66,580</u>
Change in net assets		
	<u>10,885,918</u>	<u>10,819,338</u>
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>		
	<u>10,885,918</u>	<u>10,819,338</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u><b>\$ 11,572,573</b></u>	<u><b>\$ 10,885,918</b></u>

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY SUBDISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	2005	2004 Comparative Only
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 1,452,795	\$ 1,355,254
Cash payments to suppliers	(692,422)	(610,386)
Cash payments to employees	(499,851)	(483,832)
Net cash provided by operating activities	<u>260,522</u>	<u>261,036</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Cash received from impact fees	172,051	150,576
Acquisition and construction of capital assets	(243,224)	(167,231)
Principal payments on revenue bonds payable	(210,000)	(150,000)
Interest payments on revenue bonds payable	(120,791)	(128,104)
Net cash used by capital and related financing activities	<u>(401,964)</u>	<u>(294,759)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	<u>63,614</u>	<u>32,138</u>
Net cash provided by investing activities	<u>63,614</u>	<u>32,138</u>
Net Increase (Decrease) in cash and cash equivalents	(77,828)	(1,585)
Cash and cash equivalents - beginning of year	<u>2,141,243</u>	<u>2,142,828</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,063,415</u></u>	<u><u>\$ 2,141,243</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 11,361	\$ (45,027)
Reconciling adjustments:		
Depreciation	347,825	342,163
Amortization	4,501	4,715
(Increase) Decrease in tax assessment receivable	(12,761)	(94,387)
(Increase) Decrease in accounts receivable	(971)	(706)
Increase (Decrease) in payroll taxes payable	(710)	3,928
Increase (Decrease) in accounts payable	(89,581)	57,449
Increase (Decrease) in accrued annual leave	858	(7,099)
Total adjustments	<u>249,161</u>	<u>306,063</u>
Net cash provided by operating activities	<u><u>\$ 260,522</u></u>	<u><u>\$ 261,036</u></u>
Noncash capital and related financing activities:		
Capital contributions	\$ 560,420	\$ 56,997

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Roy Water Conservancy Subdistrict began operations in 1974. The Subdistrict provides secondary water to residents in the Roy, Utah area. In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards board (GASB). Based upon the application of the criteria established by GASB Statement No. 14, the Subdistrict has no component units.

The Subdistrict's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the Subdistrict has the option to apply FASB pronouncements issued after that date to its enterprise fund, the Subdistrict has chosen not to do so. The more significant accounting policies established in GAAP and used by the Subdistrict are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.

The Subdistrict has the following fund type:

**Proprietary funds** are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Subdistrict applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Enterprise Funds** are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus and Basis of Accounting**

The accounts of Roy Water Conservancy Subdistrict are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

**Accrual:**

The government's financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Assets, Liabilities and Equity**

**Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at cost which approximates fair value.

**Receivables and Payables**

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due on November 30. Property tax receivables at year end were \$217,036.

**Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair market value at the date of donation.



**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Water System	50
Vehicles	5
Equipment	7

**Unamortized Bond Issue Costs**

The Subdistrict incurred \$113,156 in bond issue costs with the 2002 revenue bonds. The Subdistrict amortizes those costs over the life of the bond using the straight-line method.

**Accrued Annual Leave**

The Subdistrict accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee.

**Long-term Liabilities**

The Subdistrict reports long-term liabilities at face value on the balance sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

**Equity**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity (continued)**

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the Subdistrict's policy to first apply restricted resources before applying unrestricted resources when an expense is incurred for purposes by which both restricted and unrestricted net assets are available. The Subdistrict only uses the restricted net assets for their specified purposes of debt service and capital improvements.

**Operating Revenues and Expenses**

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Subdistrict. Operating revenues consist of charges for services including property taxes assessed for those services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

**Budget Information**

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act" by the Roy Water Conservancy Subdistrict on or before December 15th for the following fiscal year, which begins on January 1. Budgets may be increased by resolution of the Board of Directors at any time during the year, following a public hearing.

The Subdistrict adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. On or before the first regular scheduled meeting in November, the Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- 2. Prior to the formal adoption of the budget the Board of Directors will hold budget workshop meetings, which are open to the public.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budget Information (continued)**

3. Prior to budget adoption the Board of Directors sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the Government Funds.
5. Budgets for the District are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Board of Directors during the 2005 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

**2. DEPOSITS AND INVESTMENTS**

The Subdistrict's cash includes petty cash and amounts in demand deposits. This cash is displayed in the account titled "Cash." Investments are stated at cost or amortized cost, which approximates fair value. Deposits are not collateralized nor are they required to be by State statute. The Subdistrict's investments are displayed on the balance sheet as "Cash – savings" and "Cash and cash equivalents" under the restricted asset caption.

The Subdistrict follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of Subdistrict funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

*Custodial credit risk* – Custodial credit risk is the risk that, in the event of a bank failure, the Subdistrict's deposits may not be returned to it. The Subdistrict does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, all of the Subdistrict's bank deposits equal to \$58,984 were insured, but uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Subdistrict and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

Statutes authorize the Subdistrict to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The investments in the trust accounts and the certificates of deposits are insured under the Federal Depository Insurance Coverage, however, this amount is limited to \$100,000 per issuer. Of the \$561,035 invested in these funds, \$341,098 is insured, the remaining balance of \$219,937 is uninsured and uncollateralized.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the Subdistrict had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				Quality Ratings
		Less than 1	1-5	6-10	More than 10	
PTIF Investments	1,385,262	1,385,262	-	-	-	not rated
Trust Accounts	321,998	321,998	-	-	-	not rated
Certificate of deposit	303,327	203,000	100,327	-	-	not rated
	<u>2,010,587</u>	<u>1,910,260</u>	<u>100,327</u>	<u>-</u>	<u>-</u>	

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

*Interest rate risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Subdistrict manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Maturities of the Subdistrict's investments are noted in the previous table.

*Credit risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Subdistrict's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

*Concentration of credit risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Subdistrict's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The Subdistrict's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

*Custodial credit risk (investments)* – For an investment, this is the risk that, in the event of the failure of the counterparty, the Subdistrict will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Subdistrict does not have a formal policy for custodial credit risk. The Subdistrict's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at December 31, 2005, are as follows:

Reconciliation of deposits and investments:	
Deposits	\$ 52,678
Cash on hand	150
Investments	<u>2,010,587</u>
Cash and cash equivalents	<u>2,063,415</u>
Tie to statements:	
Cash	52,828
Cash - savings	1,692,307
Restricted cash and cash equivalents	<u>318,280</u>
	<u>\$ 2,063,415</u>

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**3. WATER SHARES**

There were 1,493.5 shares of water rights in the Davis and Weber Counties Canal Company acquired at a cost of \$1,305,911 as of December 31, 2005. The market value of these shares based on the most recent arms-length purchase is \$30,000,000 as of December 31, 2005.

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 206,419	\$ 43,304	\$ -	\$ 249,723
Land easements	1,258	-	-	1,258
Total capital assets, not being depreciated	207,677	43,304	-	250,981
Capital assets, being depreciated				
Building	276,570	-	-	276,570
Equipment	627,639	102,351	(31,976)	698,014
Water delivery system	14,333,917	688,093	-	15,022,010
Total capital assets, being depreciated	15,238,126	790,444	(31,976)	15,996,594
Accumulated Depreciation for:				
Building	(33,573)	(5,531)	-	(39,104)
Equipment	(351,479)	(52,425)	14,809	(389,095)
Water delivery system	(5,046,552)	(289,869)	-	(5,336,421)
Total accumulated depreciation	(5,431,604)	(347,825)	14,809	(5,764,620)
Total capital assets, being depreciated, net	9,806,522	442,619	(17,167)	10,231,974
Business-type activities capital assets, net	<u>\$10,014,199</u>	<u>\$ 442,619</u>	<u>\$ (17,167)</u>	<u>\$10,482,955</u>

**5. RISK MANAGEMENT - CLAIMS AND JUDGEMENTS**

The Subdistrict is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The Subdistrict maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or in prior years.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**6. LONG-TERM LIABILITIES**

During 2002 the Subdistrict issued revenue bonds to refinance all existing debt and to finance a reservoir expansion. The bonds yield a 4.50% interest rate. Maturities of long-term debt for the next five years and subsequent five year increments are as follows:

<u>For the Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 220,000	\$ 120,320	\$ 340,320
2007	225,000	112,620	337,620
2008	230,000	104,183	334,183
2009	75,000	94,983	169,983
2010	75,000	91,795	166,795
2011-2015	410,000	407,263	817,263
2016-2020	525,000	298,410	823,410
2021-2025	670,000	148,720	818,720
2026	155,000	8,060	163,060
	<u>\$2,585,000</u>	<u>\$1,386,354</u>	<u>\$3,971,354</u>

Activity with long-term liabilities including accrued annual leave for the year ended December 31, 2005 was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds Payable	\$2,795,000	\$ -	\$ (210,000)	\$2,585,000	\$ 220,000
Accrued Annual Leave	19,056	14,169	(13,311)	19,914	13,000
	<u>\$2,814,056</u>	<u>\$ 14,169</u>	<u>\$ (223,311)</u>	<u>\$2,604,914</u>	<u>\$ 233,000</u>

**7. RESTRICTED NET ASSETS**

**Debt service** - The 2002 revenue bonds contain a provision that the subsequent years' interest and principal payments be restricted to ensure the debt will be adequately serviced.

**Capital improvements** - The bond proceeds from the 2002 revenue bonds are restricted solely for capital improvements.

**ROY WATER CONSERVANCY SUBDISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**8. RETIREMENT SYSTEM**

Plan description

The Roy Water Conservancy Subdistrict contributes to the Local Governmental Noncontributory Retirement System which is for employers with social security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide funds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information of the Local Governmental Non-contributory Retirement System. The Utah State Retirement Systems is on a calendar year which ends December 31, 2003. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake Subdistrict, UT 84102 or by calling 1-800-365-8772.

Funding policy

The Subdistrict is required to contribute 11.09% of their covered salary from January 2005 through June 2005 and 11.09% of their covered salary from July 2005 through December 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the system are authorized by statute and specified by the Board.

The contributions by the Subdistrict to the Local Governmental Noncontributory Retirement System for the years ended December 31, 2005, 2004, and 2003 were \$27,991, \$24,641, and \$17,668 respectively. The contributions were equal to the required contributions for each year and were paid by the due dates or within 30 days thereafter.

The Utah State Retirement Board does not segregate the assets and vested benefits of the individual plans by unit within the system. Therefore, it is not possible to determine the portion of the assets and vested benefits or unfunded liabilities of the plans that are applicable to Subdistrict employees.

The Subdistrict also provides a 401-k plan for employees. All employees are given the opportunity, through payroll deductions, of additional participation in the 401-k plan. The contributions by the Subdistrict to the 401-k plan for the years ended December 31, 2005, 2004, and 2003 were \$26,896, \$23,690, and \$20,845 respectively. Contributions by employees were \$12,609, \$13,705, and \$13,104 respectively.



**INDEPENDENT AUDITOR'S REPORT  
STATE OF UTAH LEGAL COMPLIANCE**

To the Board of Directors  
Roy Water Conservancy Subdistrict

We have audited the accompanying financial statements of the business-type activities of Roy Water Conservancy Subdistrict, for the year ended December 31, 2005 and have issued our report thereon dated May 22, 2006. Our audit included testwork on the Subdistrict's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt  
Cash Management  
Budgetary Compliance  
Impact Fees

Truth in Taxation & Property Tax Limitations  
Purchasing Requirements  
Other General Compliance Issues  
General Compliance Special Districts

The District did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of Roy Water Conservancy Subdistrict is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Subdistrict's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an instance of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Roy Water Conservancy Subdistrict, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Wood Richards & Associates

May 22, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Roy Water Conservancy Subdistrict

We have audited the financial statements of the business-type activities of Roy Water Conservancy Subdistrict, as of and for the year ended December 31, 2005, which collectively comprise Roy Water Conservancy Subdistrict's basic financial statements and have issued our report thereon dated May 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Roy Water Conservancy Subdistrict's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Roy Water Conservancy Subdistrict's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Roy Water Conservancy Subdistrict  
Board of Directors  
Page 2

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, Utah  
May 22, 2006



Royce J. Richards, J. D., CPA  
Lynn J. Wood, CPA

May 22, 2006

Honorable Board of Directors  
Roy Water Conservancy Subdistrict

We have recently completed our audit of the basic financial statements of Roy Water Conservancy Subdistrict for the year ended December 31, 2005. During our audit we noted the following items for your consideration:

1. State law requires that every public treasurer secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. The current bond does not meet this criterion. We recommend that you increase the bond amount to meet the required criterion.

We appreciate the cooperation we received during the course of our audit.

Sincerely,

*Wood Richards & Associates*

**Wood, Richards & Associates, PC**

**CERTIFIED PUBLIC ACCOUNTANTS**

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

# ***Roy Water Conservancy Subdistrict***

5440 South Freeway Park Drive • P.O. Box 231  
Roy, Utah 84067 • Tel: 825-9744 • Fax 779-9098

June 16, 2006

Utah State Auditor's Office  
Utah State Capitol Complex  
East Office Building, Suite E-310  
P.O. Box 142310  
Salt Lake City, UT 84114-2310

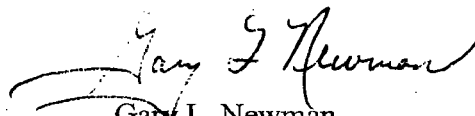
Dear State Auditor:

While conducting an extensive review of Roy Water Conservancy Subdistrict's financial records for the 2005 Audit, our auditor, Wood, Richards, and Associates, found the Fidelity Bond for the Subdistrict's Treasurer needed to be increased.

The Subdistrict has contacted their insurance company and immediately increased the Treasurer's Bond to the required level according to Utah State Code.

Please contact Mr. Roy Watts of Roy Water Conservancy Subdistrict if you have additional questions or concerns.

Sincerely,



Gary L. Newman  
Chairman of the Board

Gary L. Newman  
Chairman

Jay L. Cottle  
Vice-Chairman  
Secretary

Vern Thompson  
Trustee

Darl Field  
Trustee

Carlos J. Larsen  
Trustee

Roy Watts  
Manager / Treasurer